

Fairfax County Economic Index

Volume VI, Number 4

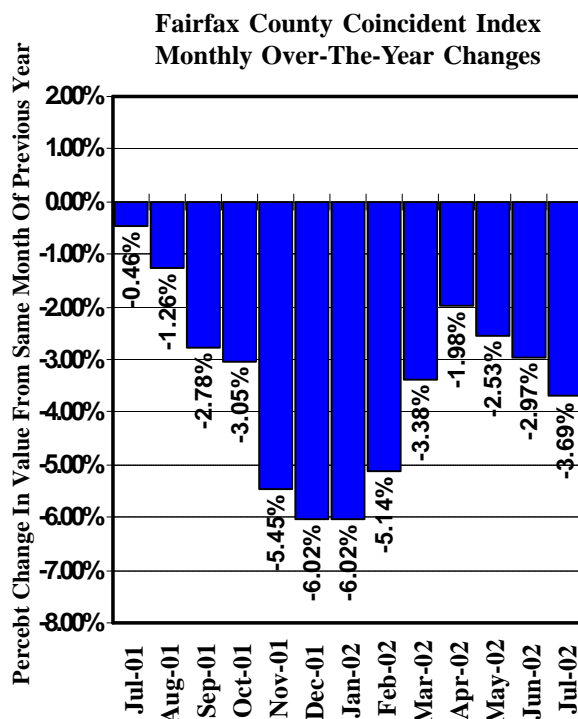
September 2002

Economy Weakens in July As National Economic Recovery Stalls

The **Fairfax County Coincident Index**, which represents the current state of the County's economy, decreased in July to 122.8 for a decline of 1.26 percent from its value in June. With this decrease, the Coincident Index has been down in three of the last four months and, for the year, is 3.7 percent below its July 2001 level. The factors undercutting the economy's expansion appear to be paralleling national conditions that have undermined consumer and business confidence since the economy's sound performance during the year's first quarter. In July, three of the four components of the Coincident Index were negative.

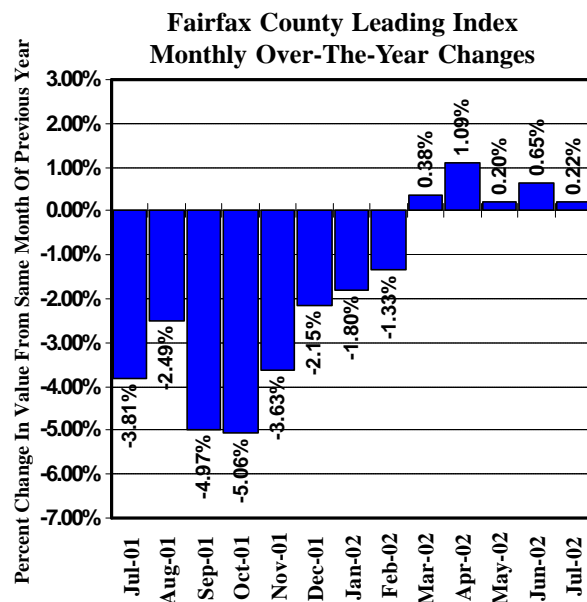
- Total employment decreased for the third time in four months;
- Transient occupancy tax collections, adjusted for inflation and seasonal variation, declined for the fifth consecutive month; and,
- Consumer confidence (in the present) decreased following two monthly increases; while,
- Sales tax collections, adjusted for inflation and seasonal variation, rebounded sharply after declining three months in a row.

The **Fairfax County Leading Index**, which is designed to forecast the performance of the County's economy nine to twelve months in advance, decreased to 103.5 for a decline of



Source: Center for Regional Analysis, George Mason University

0.08 percent from June. Following a gain in June, its marginal decrease in July combines with decreases in April and May to flatten out the Index's trend line that had been pointing up ever since its sharp drop in September 2001. Still, compared to its same-month levels in 2001, the Leading Index continues to track higher for a fifth consecutive month. In July, three of the Index's five components contributed to its decline.



Source: Center for Regional Analysis, George Mason University

- Initial claims for unemployment insurance increased (worsened) for the third time in four months;
- Consumer expectations (consumer confidence six months hence) fell sharply after improving in June and now have been down in three of the last four months; and,
- Residential building permits declined for a fourth consecutive month; while,
- The total value of residential building permits increased sharply following their substantial decline in June; and,
- New automobile sales recorded a strong gain in July as they had in May while June's sales had been lower.

The Fairfax County economy continues to struggle, unable to generate sustained improvement from one month to the next. Gains through April had substantially narrowed its performance gap on a monthly over-the-year basis. However, with the weakening of the national economic recovery, these gains in the County's economy began to erode. Each month beginning with May, the same-month

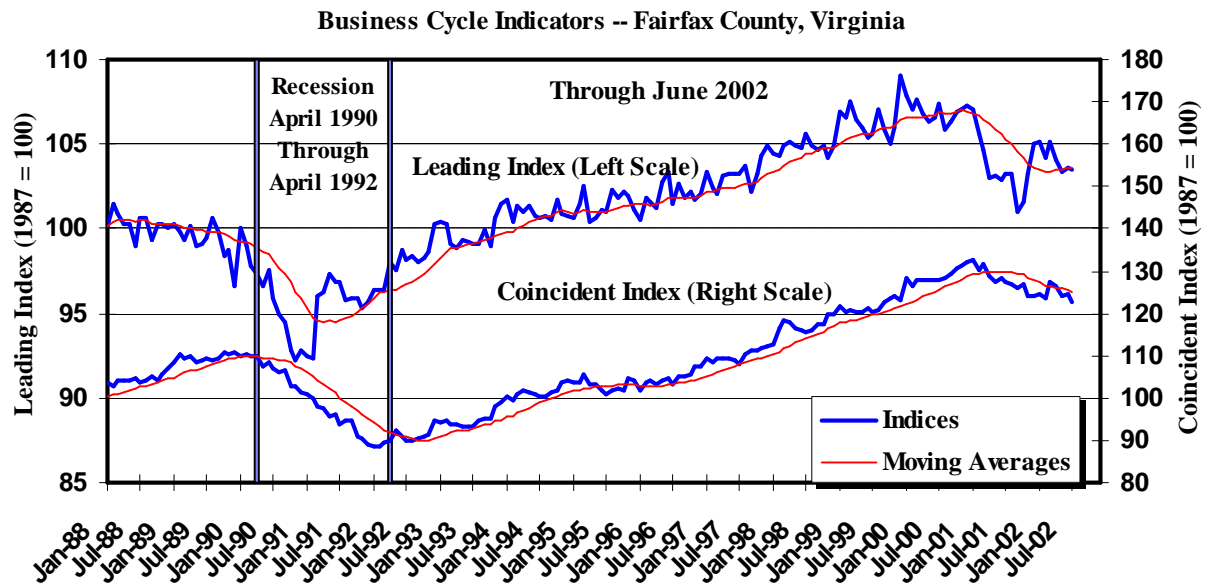
performance gap increased compared to 2001. Still, the Leading Index continued to register levels greater than in 2001 for each month beginning in March. While the Leading Index's performance has not accelerated, being able to maintain a slightly positive position relative to its same-month performance in 2001 is an indication of the economy's underlying strength.

CURRENT CONDITIONS

The slowing of the economic recovery is apparent in the traditional symptomatic indicators; the size of the labor force has decreased, unemployment has grown and, consequently, there are fewer residents in the County holding jobs. The sharp increase in initial claims for unemployment insurance (up 21.7 percent from June, up 45.6 percent from July 2001) confirms this growing weakness in the County's labor market.

Still, in spite of weaker labor market conditions and declining consumer confidence, consumers continue to spend. Sales tax receipts, adjusted for inflation and seasonal variation, that had been lagging well behind same-month levels in 2001 for most of this year jumped 16.3 percent in July and were 7 percent ahead of receipts in July 2001. New automobile sales were also up in July (as well as in May) spurred on by dealer sales and incentive programs. Consumers have been spending throughout the national recession and, along with strong housing sales, have been credited for the recession being the mildest in recent history. These consumer spending patterns (retail and housing sales) have been unique; in each of the previous nine recessions since World War II, consumer spending and housing sales had declined with the recession.

However, unlike consumer spending, business investment and equipment purchases continue to lag. And, until business spending resumes, the local and national economies cannot expect to have their recoveries accelerate. The conditions that have tempered investor enthusiasm continue to be threatened by uncertainty. Revenues and profits have not rebounded following their encouraging performances in the first quarter and concerns with terrorism surrounding the



Source: Center for Regional Analysis, George Mason University

anniversary of 9/11 and possible military action against Iraq have further fueled the uncertainty that emerged with the corporate failures reported earlier in the year.

NEAR-TERM OUTLOOK

The National Leading Index fell in July after remaining unchanged in June. After increasing strongly in January, it had been up in just one month, unchanged in two, and down in two. The National Leading Index from October 2001 to January 2002 was pointing to a slow but solid recovery. Its performance since January has been indefinite at best pointing to a weakened recovery spread over an extended period. Following 9/11, Fairfax County Leading Index also had been pointing to a solid expansion in 2002. That was before consumer and business confidence was shaken and business recovery strategies excluded hiring new full-time workers as the route to survival and profitability.

The national economy will resume growing in the third and fourth quarters. In fact economic growth is likely to be stronger than was expected, as it will have been achieved without significant new hiring but rather as a result of increased

productivity, longer work hours, and increased reliance on contract and part-time workers. Still, the economy will grow, the financial markets will stabilize, and consumer confidence will be higher at the end of the year, assuming the U.S. does not take on Iraq and oil prices do not rise significantly.

The Fairfax County economy retains considerable pent up wealth in spite of its higher unemployment (2.5 percent) and slightly lower July employment base. Job growth from July 2001 is estimated to have gained 1.8 percent and income growth is expected to have increased at an even greater rate, based on the incomplete reporting of self-employed workers and employees in newly formed businesses (entrepreneurial activity is strong during an economic slowdown).

The Fairfax County economy will accelerate through the fourth quarter in to 2003 with the normal indicators of this growth being more apparent than they were in July. July's performance was a clear measure of the economy stalling for short-term reasons most of which are now history and, as such, July's performance is not a trend. Rather, the Leading Index points to slow gains filling in over the remainder of the year. However, whether this trend can be sustained and whether it will accelerate through 2003 remains unclear from the data that are available at this time.

Fairfax County, Virginia Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Jul-02 Prelim.	Jun-02 Final	Jul-01 Final	Jun-02 to Jul-02	Jul-01 to Jul-02
Fairfax County Business Cycle Indicators					
Coincident Index (1987 = 100)	122.76	124.32	127.46	-1.26	-3.69
Leading Index (1987 = 100)	103.52	103.61	103.29	-0.08	0.22
Fairfax County Coincident Index Components					
Total Covered Employment (Seasonally Adjusted)	562,723	565,931	552,884	-0.57	1.78
<i>Total Covered Employment (Unadjusted)</i>	<i>565,885</i>	<i>572,637</i>	<i>555,992</i>	<i>-1.18</i>	<i>1.78</i>
Transient Occupancy Tax (\$'000='87, Smoothed, Seasonally Adjusted)	270	300	352	-10.05	-23.45
<i>Transient Occupancy Tax (\$'000=Current, Smoothed Only)</i>	<i>511</i>	<i>529</i>	<i>643</i>	<i>-3.47</i>	<i>-20.57</i>
Sales Tax Receipts (\$'000='87, Seasonally Adjusted)	8,415	7,235	7,863	16.30	7.02
<i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i>	<i>10,631</i>	<i>9,965</i>	<i>10,197</i>	<i>6.68</i>	<i>4.26</i>
South Atlantic Consumer Confidence	122.7	130.0	156.4	-5.62	-21.55
Fairfax County Leading Index Components					
New Automobile Registrations (Seasonally Adjusted)	6,133	5,386	5,530	13.88	10.91
<i>Automobile Registrations (Unadjusted)</i>	<i>6,973</i>	<i>6,066</i>	<i>6,287</i>	<i>14.95</i>	<i>10.91</i>
Initial Unemployment Claims (Seasonally Adjusted)	2,210	1,816	1,518	21.67	45.56
<i>Initial Unemployment Claims (Unadjusted)</i>	<i>2,211</i>	<i>1,724</i>	<i>1,519</i>	<i>28.25</i>	<i>45.56</i>
South Atlantic Consumer Expectations	103.0	112.9	94.2	-8.77	9.34
Residential Building Permits (Number of Units, Seasonally Adjusted)	475	510	462	-6.80	2.89
<i>Residential Building Permits (Number of Units, Unadjusted)</i>	<i>499</i>	<i>577</i>	<i>485</i>	<i>-13.52</i>	<i>2.89</i>
Residential Building Permit Value (\$'000='87, Seasonally Adjusted)	26,608	18,599	27,867	43.06	-4.52
<i>Residential Building Permit Value (\$=Current, Unadjusted)</i>	<i>46,654</i>	<i>37,348</i>	<i>47,091</i>	<i>24.92</i>	<i>-0.93</i>
Fairfax County Labor Force					
Total Labor Force (Seasonally Adjusted)	585,686	588,211	591,994	-0.43	-1.07
<i>Total Labor Force (Unadjusted)</i>	<i>601,515</i>	<i>597,294</i>	<i>607,993</i>	<i>0.71</i>	<i>-1.07</i>
Unemployment Rate (Percent, Seasonally Adjusted)	2.50	2.81	1.45	--	--
<i>Unemployment Rate (Percent, Unadjusted)</i>	<i>2.85</i>	<i>3.17</i>	<i>1.80</i>	<i>--</i>	<i>--</i>

Notes: All components included in the indices are seasonally adjusted. In addition, those expressed in dollar value (Building Permit Value, Transient Occupancy Tax, and Sales Tax) are expressed in constant 1987 dollars. Initial Claims are inverted prior to inclusion in the Leading Index; that is, an increase in claims results in a decrease in the index and visa versa. Because of its quarterly collection schedule, the Transient Occupancy Tax is smoothed. Unadjusted data (*italics*) and Fairfax County Labor Force data are not included in either index, but are shown for informational purposes. All percent changes are calculated from unrounded data.

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We are on the web at:
**[www.co.fairfax.va.us/comm/
economic/economic.htm](http://www.co.fairfax.va.us/comm/economic/economic.htm)**

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